

BLACK HAWK MINING LTD.

(No Personal Liability)

Annual Report

1970

FOR THE PERIOD ENDED DECEMBER 31, 1970

BLACK HAWK MINING LTD.

(NO PERSONAL LIABILITY)

OFFICERS

W. Noel O'Brien President
The Honourable Harry A. Willis, Q.C. Vice-President
A. F. Risso Secretary-Treasurer
A. F. Casselman Assistant Secretary-Treasurer

DIRECTORS

Dr. Joseph M. Kirschbaum, LL.D., Ph.D. Toronto
John Kostuik, B.Sc. Toronto
W. Noel O'Brien Toronto
Joseph A. Patrick New York
A. F. Risso Toronto
Anthony Roman Toronto
The Honourable Harry A. Willis, Q.C. Toronto

SOLICITORS

Manley, Grant & Camisso
Toronto, Ontario

TRANSFER AGENTS

Guaranty Trust Company of Canada
Montreal, Quebec
Toronto, Ontario

AUDITORS

Starkman, Kraft, Rothman,
Berger & Grill
Toronto, Ontario

BANKERS

The Royal Bank of Canada
Toronto, Ontario

HEAD OFFICE

Suite 102,
400 St. James Street West,
Montreal 1, Quebec

EXECUTIVE OFFICE

20th Floor,
4 King Street West,
Toronto, Ontario

MINE OFFICE

Blue Hill, Maine, U.S.A.

President's Report

TO THE SHAREHOLDERS:

The Annual Meeting of the shareholders of Black Hawk Mining Ltd. (No Personal Liability) will be held on April 23, 1971 at 11:00 a.m. (Montreal time) in the Blue Room of the Windsor Hotel, Montreal, Quebec.

Notice of meeting is enclosed for your attention, together with an Information Circular, an instrument of proxy, the consolidated balance sheet of the Company and its wholly owned subsidiary as at December 31, 1970, the consolidated statements of exploration and development and corporate expenses for the period ended that date, and a statement of consolidated source and application of funds as reported upon by the Company's auditors.

1970 was an encouraging year for your Company culminating in an agreement with Keradamex, Inc. to undertake exploration activities on the Black Hawk properties near Blue Hill, Maine. To increase the mineral potential of the Black Hawk mine and to meet a condition of the agreement with Keradamex, Black Hawk acquired by purchase the Maine properties of Roman Corporation Limited adjoining the Black Hawk properties.

Under the agreement Keradamex, Inc., a wholly-owned subsidiary of Kerr Addison Mines Limited of Toronto, has the right to carry out exploration on Black Hawk properties in Maine until October 1, 1971. Prior to this date Keradamex may exercise its option to bring the properties into production not later than September 30, 1973. If the option is exercised, Keradamex is committed to provide all financing and assistance necessary to establish mining, milling and concentrating operations at not less than 500 tons per day. Keradamex then would acquire a 60 per cent interest in the properties and operations. Full particulars were given in the Information Circular dated November 2, 1970. Approval of Black Hawk shareholders was obtained at the Special General Meeting of Shareholders held November 27, 1970.

Keradamex is carrying out an active program of exploration, including diamond drilling through the ice of Second Pond. The surface drilling program of 11,000 feet has been completed and results, which are encouraging, are currently being interpreted.

Northern Saskatchewan

There were no new developments in the Pinehouse Lake area of northern Saskatchewan, where Black Hawk had a 23.75% interest in an exploration program which now has terminated. Claim blocks have been relinquished.

Funds for the maintenance of the property in Maine and for corporate expenses have been advanced by Denison Mines Limited who have agreed to make further funds available to meet corporate expenses during 1971.

Shareholders will be kept informed during 1971 of developments at the Black Hawk properties in Maine.

NOEL O'BRIEN,
President.

Toronto, Ontario
March 23, 1971

BLACK HAWK

(No Particulars)

AND ITS WHOLLY OWNED SUBSIDIARIES

BLACK HAWK MINING LTD.

Consolidated Balance Sheet

(With comparative figures for 1970)

ASSETS

	1970	1969
Current Assets:		
Cash	\$ 4,086	\$ 10,239
Accounts receivable	11,532	509
Prepaid expenses	123	2,552
	<u>\$ 15,741</u>	<u>\$ 13,300</u>
Statutory Deposits:		
Province of Quebec \$1,000 bond, at cost	\$ 862	\$ 862
Government of Canada bonds lodged with the Province of Saskatchewan (face value \$31,250)	31,172	31,172
	<u>\$ 32,034</u>	<u>\$ 32,034</u>
Fixed Assets, at cost: (Notes 7 and 11)		
Mining claims and mining rights	\$ 30,350	\$ 30,350
Land, roads and leased properties	187,380	127,380
Buildings, machinery and equipment	711,116	711,116
	<u>\$ 928,846</u>	<u>\$ 868,846</u>
Deferred Expenses, at cost: (Notes 7, 8, 9 and 11)		
Material and supplies on hand, at average cost	\$ 25,125	\$ 25,125
Exploration and Development Expenses:		
Maine	1,676,545	1,660,082
Corporate expenses	1,319,141	1,067,687
Organization expenses	5,441	5,441
Bond discount and financing expenses	204,284	204,284
	<u>\$ 3,230,536</u>	<u>\$ 2,962,619</u>
	<u><u>\$ 4,207,157</u></u>	<u><u>\$ 3,876,799</u></u>

The accompanying notes are an integral part of these financial statements.

Approved on behalf of the Board:

W. NOEL O'BRIEN, Director

A. F. RISSO, Director

To be read in conjunction with the Auditors' Report to the Shareholders attached hereto dated March 2, 1971.

To the Shareholders of
BLACK HAWK MINING LTD.
(No Personal Liability)

AUDITORS

We have examined the accompanying consolidated balance sheet of Black Hawk Mining Ltd. and its wholly owned subsidiaries, deferred exploration and development expenses and deferred corporate expenses and source and other supporting evidence as we considered necessary in the circumstances.

As outlined in Notes 7 and 11, the development of the orebodies which had been deferred to the results of the exploration and development programme.

Except that depreciation charges on buildings and equipment have been omitted (Notes 7 and 11) have been prepared in conformity with generally accepted accounting principles applicable to the circumstances.

In view of the present status of the development programme as outlined above and the consolidated financial statements taken as a whole.

Toronto, Ontario
March 2, 1971

MINING LTD.

(No Personal Liability)

OWNED SUBSIDIARY

CORPORATION

as at December 31, 1970

as at December 31, 1969)

LIABILITIES

	1970	1969
Current Liabilities:		
Accounts payable and accrued charges	\$ 6,352	\$ 8,943
Advances from Denison Mines Limited	231,451	163,576
Accrued interest on debentures and advances	819,453	591,838
	<u>\$ 1,057,256</u>	<u>\$ 764,357</u>
Long-Term Debt:		
6½% Debentures Series A, due June 30, 1974	2,735,000	2,735,000
	<u>\$ 3,792,256</u>	<u>\$ 3,499,357</u>
Capital Stock		
Authorized:		
5,000,000 shares, with a par value of \$1 each		
Issued and Fully Paid:		
1,200,000 shares for mining claims and options thereon		
(1969 — 900,000 shares) (Note 10)	\$ 1,200,000	
Less: Discount thereon	1,080,000	\$ 120,000
	<u>\$ 120,000</u>	<u>\$ 60,000</u>
400,000 shares for acquisition of		
wholly-owned subsidiary	\$ 400,000	
Less: Discount thereon	373,031	26,969
	<u>\$ 26,969</u>	<u>\$ 26,969</u>
2,719,009 shares for cash	\$ 2,719,009	
Less: Discount thereon	2,267,154	451,855
	<u>\$ 451,855</u>	<u>\$ 451,855</u>
4,319,009 (1969 — 4,019,009 shares)	\$ 598,824	\$ 538,824
Deficit at the beginning of the year	161,382	161,382
Add: exploration and development expenses on Saskatchewan Joint Venture		
Programme written off (Note 9)	22,541	—
Deficit at the end of the year	<u>\$ 183,923</u>	<u>\$ 161,382</u>
	<u>\$ 414,901</u>	<u>\$ 377,442</u>
	<u>\$ 4,207,157</u>	<u>\$ 3,876,799</u>

REPORT

Ltd. (No Personal Liability) as at December 31, 1970 and the related statements of consolidated
liquidation of funds. Our examination included a general review of the accounting records and

and are now being further explored. The recoverability of costs is dependent on the successful

and subject to the recoverability of costs referred to above, the consolidated financial statements
continuing operation on a basis consistent with that of the preceding year.

use of the uncertainty of the recoverability of costs we are unable to express an opinion on the

STARKMAN, KRAFT, ROTHMAN, BERGER & GRILL
Chartered Accountants.

BLACK HAWK MINING LTD.

(No Personal Liability)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1970

1. (a) Under the Provisions of the trust indenture dated July 15, 1965, securing the Debentures Series A:
 - (i) \$5,000,000 6½% Debentures Series A have been authorized maturing June 30, 1974
 - (ii) The company is required to make sinking fund payments on or before April 15 in each year equal to the consolidated net cash flow from operations (as defined) in the preceding twelve month period ending December 31.
 - (iii) The company and any subsidiary may not pay any dividends or make any other distributions on shares without the prior written consent of the debentures holders.
 - (b) In accordance with an agreement dated August 7, 1964:
 - (i) Denison Mines Limited (Denison) has purchased \$2,735,000 6½% Debentures Series A and 150,000 shares of the capital stock of the company (valued at \$62,500) for a cash consideration of \$2,666,625.
 - (ii) If Denison determines that further work is required on the company's mining lands then Denison agrees to provide the financing therefor through purchase of debentures and shares of the company on the terms and conditions set out in the said agreement.
 - (c) Interest on the 6½% Debentures due June 30, 1974 is in arrears from January 1, 1967, in the amount of \$791,852. The Trust Indenture under which the Debentures were issued provides that the security constituted thereunder becomes enforceable on the happening of certain events of default as therein defined. One of these is default in the making of payment of any interest due and continuation of such default for 15 days after written notice thereof. Such notice has not been given by the Trustee. All of the issued Debentures are held by the major shareholder of the company, Denison Mines Limited.
2. The company has reserved 100,000 treasury shares for incentive options exercisable at \$1 per share on dates to be determined by the company. Options were granted on 92,500 shares of which 30,000 shares were exercised in a prior year and 47,500 shares were forfeited.
 3. The subsidiary being a United States company, its current assets and liabilities in United States dollars have been translated into Canadian dollars at the rate of exchange at December 31, 1970 and fixed assets are at the rate current at date of acquisition, and the exploration and development expenses and corporate expenses are at the rate current at the date of expenditure.

The subsidiary was acquired during the year ended April 30, 1965 and the consolidated figures as at December 31, 1970 include the exploration and development expenses, and corporate expenses, of the subsidiary, prior to acquisition.
 4. The subsidiary has elected not to report depreciation on buildings and equipment until such time as the mine becomes productive, although depreciation has been taken on the U.S. Federal income tax returns.
 5. Mining Claims:

Seven mining claims and mining rights acquired for 300,000 shares at a discount of \$0.90 each (\$30,000) and \$350 in cash \$ 30,350
 6. Leased properties are held under annually renewable leases requiring rental payments and a 5% participation in the net value, as defined in the various leasing agreements, of the minerals and metals removed from the leased premises.
 7. Studies made from time to time have shown that, at the then prevailing prices of copper and zinc in the U.S.A., development of the orebodies in Blue Hill, Maine by the wholly-owned subsidiary was not economic at such times. The development of these mining properties in respect of which \$928,846 and \$3,203,970 have been expended in fixed assets and deferred expenses respectively as at December 31, 1970 had been deferred and the project placed on stand-by. However, under an agreement made as of September 1, 1970, (as outlined in Note 11) the project is now being further explored by Keradamex, Inc.
 8. The amounts shown for deferred expenses represent costs to date less amounts written off and are not intended to reflect present or future values.
 9. The joint exploration programme in the Pinehouse Lake area of Northern Saskatchewan has been terminated.
 10. Pursuant to an agreement dated August 28, 1970, the company acquired from Roman Corporation Limited five parcels of freehold land and eight mining leases in Blue Hill, Maine, in consideration of 300,000 fully paid and non-assessable shares in the capital of the company valued by the directors of the company at 20¢ per share (\$60,000).
 11. The company and its wholly owned subsidiary, Black Hawk Corporation, entered into an agreement dated September 1, 1970 and amended October 29, 1970 with Keradamex, Inc., (Keradamex) a wholly owned subsidiary of Kerr Addison Mines Limited. The agreement provides the following:
 - (a) Keradamex is granted the exclusive right to develop and explore the company's properties in Blue Hill, Maine from October 1, 1970 to October 1, 1971. Keradamex is to pay all expenses applicable to these properties and will reimburse the company for any expenses paid except for principal and interest becoming due or owing on the issued debentures of the company.
 - (b) Keradamex is granted a Production Option exercisable by notice in writing given to the company at any time on or before October 1, 1971, to cause the properties to be brought into production on or before September 30, 1973 at production capability as defined in the agreement.
 - (c) After production capability has been established, a joint venture will be formed in which Keradamex will own a 60% interest and the company will own a 40% interest.
 - (d) If the Production Option is not exercised by October 1, 1971, the agreement will terminate and Keradamex will pay the company \$100,000 less exploration and development costs incurred by Keradamex.
 12. Pursuant to an agreement dated September 30, 1970 with the company's debentures holder Denison Mines Limited, in the event Keradamex exercises the Production Option, Denison Mines Limited will discharge the charges contained in the trust indenture referred to in Note 1 insofar as such charges extend to the properties in Maine, during the term of the agreement referred to in Note 11.

In consideration of the foregoing, the company will use the proceeds of all monies received from production of the properties to first repay the debentures, accrued interest and advances to Denison Mines Limited.

BLACK HAWK MINING LTD.

(No Personal Liability)

STATEMENT OF CONSOLIDATED DEFERRED EXPLORATION AND DEVELOPMENT EXPENSES

For the year ended December 31, 1970

(With comparative figures for the year ended December 31, 1969)

	1970	1969
Maine:		
Balance Deferred at Beginning of Year	\$ 1,660,082	\$ 1,637,667
Diamond drilling, mapping and assaying	—	\$ 537
General field expenses	\$ 16,463	21,878
	\$ 16,463	\$ 22,415
Balance Deferred at End of Year	\$ 1,676,545	\$ 1,660,082
Saskatchewan:		
Recording fees	\$ 282	—
Drilling	17,410	—
General field expenses	1,909	—
Administration	2,940	—
Balance Written off to Deficit (Note 9)	\$ 22,541	—

STATEMENT OF CONSOLIDATED DEFERRED CORPORATE EXPENSES

For the year ended December 31, 1970

(With comparative figures for the year ended December 31, 1969)

	1970	1969
Balance Deferred at Beginning of Year	\$ 1,067,687	\$ 835,676
Registrars' and transfer agents' fees and expenses	\$ 3,013	\$ 3,086
Legal and audit fees and expenses	6,635	2,449
Capital and place of business tax	70	70
Interest on debentures	215,330	203,784
Interest, other	12,285	9,529
Administrative salaries, communications, stationery and office supplies, rent, taxes, insurance and general office expenses	12,625	12,235
Travelling expenses	1,190	474
General expenses	306	384
	\$ 251,454	\$ 232,011
Balance Deferred at End of Year	\$ 1,319,141	\$ 1,067,687

The accompanying notes are an integral part of these financial statements.

BLACK HAWK MINING LTD.

(No Personal Liability)

STATEMENT OF CONSOLIDATED SOURCE AND APPLICATION OF FUNDS

For the year ended December 31, 1970

(With comparative figures for the year ended December 31, 1969)

	1970	1969
Working Capital (Deficiency) — Beginning of Year	\$ (751,057)	\$(531,446)
Source of Funds		
Reimbursement of deferred exploration and development expenses — Saskatchewan	—	\$ 34,815
Proceeds from issue of common shares	\$ 60,000	—
	<u>\$ 60,000</u>	<u>\$ 34,815</u>
Application of Funds		
Exploration and development expenses	\$ 39,004	\$ 22,415
Corporate expenses	251,454	232,011
Acquisition of mining properties and leases	60,000	—
	<u>\$ 350,458</u>	<u>\$ 254,426</u>
Decrease in Working Capital	\$ 290,458	\$ 219,611
WORKING CAPITAL (DEFICIENCY) — END OF YEAR	<u><u>\$(1,041,515)</u></u>	<u><u>\$(751,057)</u></u>

The accompanying notes are an integral part of these financial statements.